



## RELATED PARTY (BUILDING & TRANSPORTATION) LEASES/RENTAL WORKSHEET

### I. SUMMARY - ALLOWABLE COST DETERMINATION

Related Party Lease/Rental of Building(s) and Transportation

A	B	C	D	E	F
Name of Related Party	% of Common Ownership	Description of Items/Goods Leased/Rented	Cost to the Related Party	Cost to the Contractor (yearly lease amount)	Allowable Cost (the lower cost of D or E)



## II. RELATED PARTY BUILDING LEASE/RENTAL – COST TO RELATED PARTY

### 1. Buildings: (straight-line depreciation and amortization)

A	B	C	D	E	F	G	H
Description of Property	Month/Year Placed in Service	Years of Useful Life	Historical Cost	Salvage Value	Depreciation Basis (D minus E)	Prior Period Accumulated Depreciation	Reporting Period Depreciation
						1.Total Depreciation:	

### 2. Other Depreciation/Amortization:

A	B	C	D	E	F	G	H
Description of Property	Month/Year Placed in Service	Years of Useful Life	Historical Cost	Salvage Value	Depreciation Basis (D minus E)	Prior Period Accumulated Depreciation	Reporting Period Depreciation
						2. Total Other Depreciation:	

3. Total Depreciation Expense (Sum Items 1 thru 2 of Column H) ... \$ \_\_\_\_\_

### Record the amount of the following expenses if paid by related party:

4. Mortgage Interest Expense ..... \$ \_\_\_\_\_
5. Maintenance and Repair ..... \$ \_\_\_\_\_
6. Ad Valorem Property Taxes ..... \$ \_\_\_\_\_
7. Property Insurance ..... \$ \_\_\_\_\_
8. Other Expense (Describe below) ..... \$ \_\_\_\_\_

9. Total Cost to Related Party (Sum Items 4 thru 8) ..... \$



### III. RELATED PARTY TRANSPORTATION LEASE/RENTAL – COST TO RELATED PARTY

1. Transportation: (straight-line depreciation)

A	B	C	D	E	F	G	H
Description of Property	Month/Year Placed in Service	Years of Useful Life	Historical Cost	Salvage Value	Depreciation Basis (D minus E)	Prior Period Accumulated Depreciation	Reporting Period Depreciation
						1. Total Depreciation:	

2. Total Depreciation Expense (Sum of Column H) ..... \$ \_\_\_\_\_

**Record the amount of the following expenses if paid by related party:**

3. Interest ..... \$ \_\_\_\_\_

4. Insurance ..... \$ \_\_\_\_\_

5. Gasoline ..... \$ \_\_\_\_\_

6. Oil and Repairs ..... \$ \_\_\_\_\_

7. Other Expense (Describe below) ..... \$ \_\_\_\_\_

8. Total Cost to Related Party (Sum Items 3 thru 7) ..... \$



## RELATED PARTY AND RELATED PARTY TRANSACTIONS DEFINITIONS

**Related party** is a natural person or organization related to the contractor entity by blood/marriage, common ownership, or any association, which permits either entity to exert power or influence (control), either directly or indirectly, over the other.

Two or more individuals or organizations constitute related parties whenever they are affiliated or associated in a manner that entails some degree of legal control or practical influence of one over the other. This affiliation or association may be based on common ownership, past or present mutual interests in healthcare or other types of enterprises, or family ties.

In determining whether a related party relationship exists with the contractor, the tests of common ownership and control are applied separately. If the elements of common ownership or control are not present in both organizations, the organizations are deemed not to be related to each other.

Control exists where an individual or organization has power, directly or indirectly, significantly to influence or direct the actions or policies of an organization or institution. The existence of an immediate family relationship will create an irrefutable presumption of relatedness through control or attribution of ownership or equity interests where the significance tests are met.

The following persons are considered immediate family for cost-reporting purposes: (1) husband and wife; (2) natural parent, child and sibling; (3) adopted child and adoptive parent; (4) stepparent, stepchild, stepsister, and stepbrother; (5) father-in-law, mother-in-law, brother-in-law, son-in-law, sister-in-law, and daughter-in-law; (6) grandparent and grandchild; (7) uncles and aunts by blood or marriage; (8) nephews and nieces by blood or marriage; and (9) first cousins.

**Related party transactions** include the purchase/lease of facilities, services, equipment, or supplies from the contractor's central office or related organization(s). Allowable expenses (for cost-reporting purposes) in such cases are limited to the lower of the cost to the related organization (excluding markups and profit margins) or the cost to the contractor.

## RELATED PARTY BUILDING & TRANSPORTATION LEASE/RENTAL WORKSHEET

This worksheet should be completed only if building(s) and transportation **were leased or rented from a related party** during the prior fiscal year end of the contractor. **Allowable expenses** in related party transactions **are the lower of the cost to the related party or organization (excluding markups and profit margins) or the cost to the contractor.**

OMB A-122, Cost Principles for Non-Profit Organizations, states the rental costs made to related parties are only allowable up to the amount that would be allowed had title to the property vested in the organization. **Independent appraisals of fair market value and market rental rates can not be used to determine the allowable cost which is payable to the related parties** for the lease of assets to the Contracted Provider.

This Worksheet has three components: I.) Summary - Allowable Cost Determination, II.) Related Party Building Lease/Rental - Cost to Related Party, and III.) Related Party Transportation Lease/Rental – Cost to Related Party. The components are outlined below to facilitate the completion of this Worksheet.



## I. SUMMARY - ALLOWABLE COST DETERMINATION

### SECTION 1: RELATED PARTY LEASE/RENTAL OF BUILDING(S) AND TRANSPORTATION

**The Name of Related Party.** (Column A) If the contractor is a proprietorship, the related organization could be the owner himself/herself rather than a separate corporation. If the contractor is a partnership, the related organization could be one of the partners.

**Percentage (%) of Common Ownership.** (Column B) If the contractor is one "branch" of a central corporation and the related organization in Column A was the central office, the percentage of common ownership would be 100%. If the contractor is a for-profit corporation and the related party in Column A was a stockholder with 5% of the stocks, then the percentage of common ownership would be 5%. Since nonprofit corporations do not have stock, the "ownership" column should reflect either "Member of Board of Directors" or "related by blood or marriage to Member of Board of Directors".

**Description of Items/Goods Leased/Rented.** (Column C) Examples of these descriptions include leased/rented vehicle and leased/rented building.

**Cost to the Related Party.** (Column D) Report the exact cost to the related party or organization. If a building is leased from a related party, calculate the cost to the related party or organization on Page 2 (including applicable portion of the building's depreciation, any depreciation for items other than the building that are included in the lease of the building, mortgage interest expense, maintenance and repair, ad valorem property taxes, property insurance, etc.); therefore, Item 9 on Page 2 would be transferred to Column D on Page 1.

**Cost to the contractor.** (Column E) Report the expense recorded in the books of the contractor (i.e., what the related party charged the contractor).

**Allowable cost (the lower of Column D or Column E).** (Column F) If the item is a leased/rented building, report the lower of the calculations shown in Item 9 on Page 2 and the actual lease/rent paid by the contractor. If the item is a leased/rented transportation, report the lower of the calculations shown in Item 8 on Page 3 and the actual lease/rent paid by the contractor.

- Please note that according to the most recent revision of A-122 [23.a.(1)(f)(i)] interest is **unallowable** if the assets were acquired prior to June 1, 1998.

## II. AND III. RELATED PARTY BUILDING AND TRANSPORTATION LEASE/RENTAL - COST TO RELATED PARTY

Calculate the cost to the related party for the building and/or transportation you lease from that related party. The depreciation calculations used on this page must follow the detailed guidelines for depreciation as indicated below.

### STRAIGHT LINE DEPRECIATION AND AMORTIZATION

- All equipment items (building and transportation) having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of (a) the capitalization level established by the organization of the financial statement purpose, or (b) \$5,000.
- **Use the straight-line depreciation/amortization method only.**
  - **No other depreciation method can be used.**
  - Accelerated depreciation methods allowed by the Internal Revenue Service (IRS) cannot be used for the depreciation method.



### **GENERAL REQUIREMENTS**

- Include only individual assets purchased meeting the definition indicated above.
- A sheet must be completed for each asset (building and transportation) so the related costs for each asset can be easily identified. Therefore, make copies of page 2 and 3 as applicable.

### **SPECIFIC REQUIREMENTS**

**Description of property** - refers to the type of asset, such as building, air conditioner, etc. Provide a specific description for **each** individual asset. **Do not write "various" and group assets.** The following definitions provide examples of types of assets:

- **Buildings** - are basic structures or shells, excluding equipment such as air conditioning units and trade fixtures (such as service counters). You should report depreciable land improvements (such as fences, sidewalks, driveways, parking lots, etc.) in the "LAND AND LEASEHOLD IMPROVEMENTS" section.
- **Land improvements** - are assets found on the land area. The asset can be placed above or below the ground. Examples of land improvements are fencing, landscaping, lawn sprinkler system, parking lot, septic system, waste water treatment system, etc.
- **Leasehold improvements** - are improvements a lessee makes to a leased building. These improvements are attached to the building or land in a permanent way. These improvements become the property of the lessor when the lease is terminated. Examples of leasehold improvements are permanent trade fixtures, additions and betterment's.
- **Transportation equipment** - is used to move or transport people or articles, such as automobiles.

**Month/Year placed in service** - refers to the date the individual asset was purchased or received. Since each individual asset purchased must be separately recorded under "Description of Property", the word "VARIOUS" cannot be used. The month/year placed in service must be identified for **each** asset.

**Years of useful life** - the estimated period assigned to an asset based on the expected life derived from the use of the asset. Since each individual asset purchased must be separately recorded under "Description of Property", the word "VARIOUS" cannot be used. The years of useful life must be identified for **each** asset.

- DFPS **requires** the use of the following estimated useful lives and salvage values for depreciable assets:
  - Buildings: must be at least 30 years with a 10% salvage value;
  - Passenger automobiles (including minivans): 3 years with a 10% salvage value
  - Light trucks and vans: 5 years with a 10% salvage value;
  - Buses: 7 years with a 10% salvage value.
- For other depreciable assets, the American Hospital Association publication, "Estimated Useful Lives of Depreciable Assets" or IRS guidelines must be used for determining years of useful life. The most recent version available of the AHA publication is 1998. Copies can be obtained from American Hospital Publishing, Inc., 737 North Michigan Avenue, Chicago, Illinois 60611-2615 (Phone 1-800-242-2626).

**Historical cost** - the cost of acquiring the asset and preparing it for use.

**Salvage value** - the estimated value of the asset for scrap or salvage after its useful life has ended.



**Depreciation basis** - the total amount an asset can be depreciated over its useful life (i.e., the historical cost minus any salvage value).

**Prior period accumulated depreciation** - the total amount of straight-line depreciation taken in prior reporting periods.

**Depreciation for the reporting period** - the amount of depreciation taken on an asset for the reporting period and is determined as follows:

- Subtract the estimated salvage value from the historical cost.
- Divide the result (the depreciation basis) by the number of years of remaining useful life on the date the asset was acquired.
  - Depreciation for a single asset in any year is limited to this amount.
  - The amount allowed in a given year will be a lesser amount under these conditions:
    - The asset was placed in or taken out of service during the year.
    - The total accumulated depreciation for the asset would exceed the depreciation basis (historical cost minus estimated salvage value).